Supreme Court, U.S.
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No. 93-2060

IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

TERRY PHILIPS,

Petitioner,

v.

JOHN W. VON HOLDT and PLAS TOOL COMPANY,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

RESPONDENTS' BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

1. Should the "plain error" rule be applied in such a way as to entitle a loosing party to a new trial merely because a jury instruction was arguably inconsistent with a pre-trial ruling by the trial court, and notwithstanding the following considerations:

- The jury instruction in question was a correct statement of the law;
- The jury instruction in question was instructive with respect to evidence admitted into the record after the trial court's pre-trial ruling, without challenge or objection by the losing party;
- The jury instruction in question was prepared and affirmatively proposed by the losing party; and
- The jury instruction in question was subsequently clarified and reinforced by a response to a question from the jury during deliberation, where such response was also prepared and affirmatively proposed by the losing party?

2. Is it "plain error" for a trial court to give a jury instruction which is arguably inconsistent with a pre-trial ruling where evidence which was admitted later into the record shows that the pre-trial ruling was incorrect?

3. Is the handling of the plain error rule by the Federal Circuit Court of Appeals in conflict with the handling of that doctrine by the regional Courts of Appeals?

RULE 29.1 DISCLOSURE

Plas-Tool Company does not have a parent company. Neither Plas-Tool Company nor any of its subsidiary companies are publicly traded.

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RESPONDENTS' BRIEF IN OPPOSITION

STATEMENT OF THE CASE

By this petition, Philips seeks a new trial on an issue of damages in a patent infringement case. The jury found Philips guilty of willfully infringing von Holdt's patent on an innovative injection mold for making plastic buckets. That finding is not challenged, so Philips stands before this Court as an established willful infringer. The evidence showed that, prior to issuance of von Holdt's patent, Philips purchased two molds from von Holdt's company. After the von Holdt patent issued and von Holdt had raised the price on the (then) patented mold, Philips had competitors of von Holdt carefully measure and make

copies of the patented molds to within thousandths of an inch. Philips bought and used those infringing copy molds, reaping enormous financial benefits for his company. Damages were awarded in the amount of $7.14 million. All pertinent evidence was made of record without challenge or objection.

The trial judge denied all post-trial motions by Philips's trial counsel. The issues were subsequently fully briefed and argued to the Federal Circuit Court of Appeals. One of the joint defendants settled with von Holdt after the filing of appellate briefs, but prior to the appellate argument. That defendant is not participating in this petition. The Federal Circuit Court of Appeals affirmed the trial court's judgment, without opinion, only a few weeks after the oral argument.

As a basis for his present petition, Philips contends that a particular jury instruction was erroneous with respect to the possible determination of a reasonable royalty measure of damages. No serious question is presented as to whether the verdict award is consistent with the jury instructions or the evidence. Instead, the Philips's Appendix quotes "Excerpts From Jury Instructions" which Philips attacks as being inconsistent with a particular pre-trial ruling in the case.

There is no dispute that the trial court's jury instructions are totally consistent with established law in the patent field. Indeed, Philips's trial counsel jointly authored all of the jury instructions, together with von Holdt's counsel, and jointly proposed them to the trial court. Thus, Philips does not contend that the final jury instructions are contrary to established law on patent damages. Philips simply contends an instruction was inconsistent with a pre-trial ruling. In so contending, Philips desper-

ately ignores the factual evidence that was admitted into the record following the pretrial ruling without any challenge or objection from Philips, and which showed that the pretrial ruling was incorrect.

More specifically, three days before trial, the trial court granted Philips's motion for partial summary judgment, and held that damages could and should be based on a "lost profits" determination, not on a reasonable royalty determination. The trial court also ruled that, if a reasonable royalty was argued, it should be a reasonable royalty based on a lump sum determination, rather than an ongoing royalty. In so ruling, the trial court relied solely on the authority of *Stickle v. Heublein, Inc.*, 716 F.2d 1550 (Fed. Cir. 1983).

At trial, von Holdt presented substantial evidence of damages under both a lost profits theory and a reasonable royalty theory. Briefly, the evidence included admissions by Philips and testimony by von Holdt and von Holdt's experts with respect to the financial benefits of the patented invention, copies of license agreements between von Holdt and Philips with respect to other patented molds, and copies of license agreements between von Holdt and third parties pertaining to the same patent-in-suit as well as other similar patented inventions. All of this evidence related to the validity issues in suit as well as to the damages issues. In sum, this evidence showed that: (i) the patented invention-in-suit produced many millions of dollars of benefit to Philips's business; (ii) Philips had admitted to others that he wanted to use the infringing molds for the very purpose of gaining substantial financial benefit; (iii) other persons had paid rates to use the invention-in-suit which were as high or higher than the jury damage award in this case; and (iv) both Philips and others had previously licensed similar inven-

tions from von Holdt at rates which were as high or higher than the jury damage award in this case.

In the final analysis, the undisputed evidence of record in the case showed that von Holdt's actual damages might very well have exceeded the judgment under either a "lost profits" theory or a "reasonable royalty" theory. Thus, the jury's award was proper and beyond chalienge under either theory of damages. As a result, the Court of Appeals for the Federal Circuit, which authored the prior opinion in *Stickle v. Heublein*, affirmed the trial court's judgment and rejected Philips's arguments that the evidence and the jury instruction were inconsistent with the pre-trial ruling.

ARGUMENT

1. The Pre-Trial Ruling on Partial Summary Judgment

Philips's pre-trial Motion for Partial Summary Judgment asked that any damages awarded for patent infringement not be based on the extent of Philips's use of the infringing molds or on the value of the plastic buckets made using the molds. The trial court, erroneously granted Philips's pretrial motion relying solely on *Stickle v. Heublein, Inc.*, 716 F.2d 1550 (Fed. Cir. 1983), and noted that von Holdt had not submitted any evidence that persons in the field would be willing to pay a reasonable royalty based upon on-going use of the molds. The trial court concluded that, in the absence of such evidence, damages should be determined under a lost profits theory or, possibly, as lump sum royalty.

The pre-trial ruling on damages by the trial court became obsolete as the trial progressed. Von Holdt offered evidence at the trial showing that Philips enjoyed almost $14 million in savings through use of the infringing molds

to produce large quantities of plastic buckets. Evidence was also presented showing another agreement for sale of the same patented mold at rates as high or higher than the damages awarded in this case. The evidence also showed other license agreements between von Holdt, Philips, and other third parties for use of similar technology and inventions at rates as high or higher than the damages awarded in this case. There was no challenge or objection by Philips's trial counsel to any of that extensive evidence in the record. Clearly, Philips's trial counsel did not attempt to enforce the pre-trial ruling in order to avoid reversible error.

The *Stickle* case, relied on by the trial court, did not involve a pre-trial ruling. In that case, the Court of Appeals reversed a patent infringement damage award solely on the ground that there was no evidence in the trial record on appeal to support an award of royalty damages based on the extent of use of an infringing machine. *Stickle*, 716 F.2d at 562-63. The Federal Circuit observed in the *Stickle* case that there was no evidence indicating that the plaintiff had ever granted a use license, or that the defendant had ever accepted a use license; furthermore, in the extensive negotiations which actually took place between plaintiff and defendant, a use license was never discussed. *Id.*

Unlike the present situation, the *Stickle* decision was an appellate decision *after full trial* based on a total lack of evidence in the trial record to support a finding of reasonable royalty. By contrast, the trial judge in the present case ruled *before trial* that von Holdt should pursue damages under a lost profits theory, rather than a reasonable royalty, and that if a reasonable royalty was pursued, it should be based on a lump sum amount.

The trial court's pre-trial decision was erroneous. Philips's pre-trial arguments, which mischaracterized the

Stickle v. Heublein case, misled the trial court to that erroneous ruling. Von Holdt cross-appealed the erroneous pre-trial ruling, but agreed to waive the appeal if the Court of Appeals affirmed the trial court's final judgment, which it did.

2. The Final Jury Instructions, Responses to Jury Question, and Jury Verdict Form

The jury instructions, properly issued by the trial judge, were prepared and proposed by Philips's counsel jointly with von Holdt's counsel. The jury instructions were based directly on existing and established patent law, including 35 U.S.C. § 284, which provides that damages must "in no event be less than a reasonable royalty." Thus, von Holdt was entitled as a matter of law to present evidence of damages under both the lost profits theory and the reasonable royalty theory, and the jury was legally obligated to award damages under whichever theory produced the higher figure.

The jury instruction gave a legally correct explanation on how to determine the damages under the lost profits theory and the reasonable royalty theory. The relevant considerations under a reasonable royalty theory include evidence of the savings that result from using the invention, the patentee's licensing policy, and other license rates charged by the patentee or paid by either the defendant or third parties for similar inventions. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *modified and aff'd.*, 446 F.2d 295 (2nd Cir. 1971), *cert. denied*, 404 U.S. 870 (1971) (a seminal case on reasonable royalty in patent cases which has been endorsed by the Federal Circuit). Importantly, cost savings are not and were not presented as the measure of damages. Rather, cost savings are merely one factor in

what a reasonable licensor and licensee would consider and resolve in establishing a reasonable royalty. All of this law was clearly instructed to the jury. Indeed, the clarity of the law with respect to these considerations is the reason why the parties were able to fully agree and to jointly propose the jury instructions without any objections from Philips.

Philips not only proposed every instruction that was given, he also did not request a single instruction that was refused. Philips's failures in these regards preclude him under Rule 51, Fed.R.Civ.P., from challenging the jury instructions on appeal. *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 542 (Fed. Cir.), *cert. denied*, 500 U.S. 918 (1991).

The correctness of the trial court's jury instructions, as well as the jury's handling of the instructions and Philips's affirmative agreement with them, was subsequently reenforced by events that occurred during the jury's deliberations. After several hours of deliberation, the jury asked for a calculator, which they were given. Later, the jury asked whether Philips would be able to continue using the infringing molds after trial. Specifically, the jury's later question No. 4 read as follows:

> "Will the allegedly infringing molds be able to continue to be in operation if said molds are infringing?"

(App. 1). The wording of this question reveals a very careful and intelligent jury.[1]

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[1] Indeed, even though the subject had never been discussed in front of the jury, the jury's question shows that they had put their finger on a key aspect of Philips's trial strategy. Namely, one of the reasons why Philips had sought the pre-trial ruling limiting

(Footnote continued on following page)

All counsel and the Court recognized at this time that the jury had *probably* found in favor of von Holdt on the issue of liability and was *probably* in the process of deciding the amount of damages. Moreover, counsel and the Court recognized that any response to the jury's question was directly related to the pretrial ruling which required that damages must be determined as single lump sum. That is, if the jury was told that Philips would be entitled to continue using the infringing molds, then the District Court would likely refuse a post-trial injunction, but the amount of damages awarded by the jury would presumably be higher, and vice versa. The Court told counsel to try to agree on a response to the jury, and von Holdt's counsel then told Philips's counsel that he could have his choice, either accepting a possible injunction with a lower damage award, or accepting a potentially higher judgment without injunction. Philips's counsel specifically chose the option of no possible injunction (accompanied by the risk of higher damage award). In a written response to the jury *formulated and proposed* by Philips's counsel in combination with von Holdt's counsel and signed by the trial judge, the jury was answered as follows:

> "Yes. The instructions at pp. 101-102 state that the Court has previously ruled in this case that the reasonable royalty, if applicable, must be determined as a single lump-sum payment. The

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[2] *continued*
damages to a lump sum, rather than an on-going royalty, was that Philips's greatest fear was an injunction preventing him from further use of the infringing molds. All parties had recognized that, if the damage award was given in the form of lost profits or a lump sum royalty covering the useful life of the molds, then Philips would not be subject to an injunction after paying the damage award.

> effect of this ruling is that the molds can be used for the life of the molds, and thus the reasonable royalty, if applicable, should cover commensurate use of the molds."

(App. 1). Thus, all of the parties and the trial court expressly agreed that any reasonable royalty determination should be based upon "use of the molds" for the life of the molds, *id.*, so long as the damages were awarded in a single-lump payment, which they were.

It is worth emphasizing that the evidence and the instructions in the case support the jury's damage award under either a lost profits analysis or a reasonable royalty analysis. Philips's petition is based upon the position that the jury must have awarded a reasonable royalty using an approach that was inconsistent with the trial court's pre-trial ruling. That premise is incorrect. The record contains no basis for knowing whether the damage award was based upon a lost profits theory or a reasonable royalty theory. Significantly, Philips created this ambiguity. Plas Tool had proposed a jury verdict form that would have required the jury to specifically state whether damages were being awarded under a lost profits theory or a reasonable royalty theory. Philips objected to this verdict form, and the Court acted in accordance with Philips's objection. As a result of Philips's choice, the verdict form signed by the jury does not indicate which theory of damages formed the basis of the damage award.

3. The Plain Error Rule Does Not Apply to the Present Situation

Philips's reliance on the plain error rule as his basis for certiorari to this Court is seriously misplaced. There is *no* error here. The final jury instructions and the responses to the jury questions are *per se* correct. They

properly explain the general law in the field of patent damages. Philips does not dispute this.

Even if *some* error is arguably assumed, it is far from "plain." The only error alleged by Philips is that the instruction on reasonable royalty is arguably inconsistent with the pre-trial ruling that damages should preferably be awarded as lost profits. However, that is not error, and cannot justify a new trial for many reasons.

First, the pre-trial ruling expressly contemplated the possibility that the award of damages could be made under a reasonable royalty theory, provided the award was made in the form of a lump sum amount. In fact, the damage award was made in the form of a lump sum amount. Thus, the award is not inconsistent with the pre-trial ruling.

Second, even if the disputed instruction on reasonable royalty had never been given, Philips proposed (and the trial court gave) other instructions to the jury that would have produced the same result. *See, e.g.*, the trial court's response to jury question No. 4 attached in the Appendix at App. 1 and discussed above. Never, at any stage of this dispute, has Philips challenged the propriety of the response to jury question No. 4, and Philips has not done so in his petition. In view of the unchallenged correctness of the response to jury question No. 4, there cannot be any error in the underlying instruction on reasonable royalty.

Third, the final instructions to the jury contained other explicit instructions regarding the trial court's pre-trial ruling, including the impact of that ruling on the case and the manner in which the jury was to account for that ruling in their damage determination. (App. 1). If there was any place at which an inconsistency might arise between

the final instructions and the pre-trial ruling, that was the place. However, Philips has not and does not challenge that instruction. As a result, that instruction must be correct. This shows that Philips is merely trying to nit-pick isolated words in disparate instructions by the trial court.

Fourth, assuming that the jury instruction on reasonable royalty was contrary to the trial court's pre-trial order, that pre-trial order was not final. *Syntex Pharm. Int'l. Ltd. v. K-Line Pharm. Ltd.*, 905 F.2d 1525, 1526 (Fed. Cir. 1990). The District Court was free—indeed obligated—to reconsider the pre-trial order when the evidence and justice demanded. Such a ruling on partial summary judgment is not immutable and has no *res judicata* effect:

> Not only is such an order not appealable, but it remains within the plenary power of the district court to revise or set aside in its sound discretion without any necessity to meet the requirements of Fed. R. Civ. P. 60(b). . . .

Avondale Shipyards, Inc. v. Insured Lloyd's, 786 F.2d 1265, 1269 (5th Cir. 1986); *see also Leddy v. Standard Drywall, Inc.*, 875 F.2d 383, 386-87 (2d Cir. 1989) (district court did not commit reversible error in failing to follow its partial summary judgment order providing defendants had opportunity to present countervailing evidence); *United States v. Horton*, 622 F.2d 144, 148 (5th Cir. 1980) (decision on partial summary judgment has no *res judicata* effect and can be reversed *sua sponte*); *see also* 6 Moore's Federal Practice ¶ 56.20[3.-4] (2nd ed. 1988).

Fifth, a great deal of new evidence was presented to the jury that was not before the trial court at the time of ruling on the partial summary judgment motion. The trial court specifically directed counsel to provide proposed jury instructions that were based on the evidence which was submitted during trial. Philips did not object to the

evidence, nor to the proposed instructions, nor to von Holdt's closing arguments about how the evidence related to damages.

Indeed, there was no error in these rulings at trial. It was the pre-trial ruling which was erroneous. The pre-trial ruling tried to impede von Holdt from presenting an alternative theory of damage under a reasonable royalty approach, which is a statutory right of all patentees. 35 U.S.C. § 284. Von Holdt appealed this erroneous pre-trial ruling, and the issue was fully briefed before the Court of Appeals, but von Holdt waived the appeal in the event that the Court of Appeals affirmed the final judgment below, which it did.

The foregoing fully establishes there is no basis for Philips's petition for further review. There was no error that prejudiced Philips—certainly no "plain error." There is no reason why Philips should be granted a new trial, and this Court should not devote its limited resources to this petition.

4. The Federal Circuit Properly Handles the Plain Error Doctrine

One of the most outrageous arguments made by Philips in his petition for certiorari is the argument that, since he has not found any case by the Federal Circuit Court of Appeals applying the plain error doctrine, "*it must be assumed that the Federal Circuit refuses to follow this doctrine.*" *See* the petition at page 10, emphasis added. In fact, Philips's research is faulty; his logic is a *non sequitur*; and his conclusion is incorrect.

Legal research shows clearly that the Federal Circuit Court of Appeals recognizes the plain error doctrine. For example, the Court noted in one case as follows:

> "Although [the losing parties] sought to reargue the facts, the only question before us is whether the instruction was so plainly contrary to law that, although not objected as Rule 51 requires, a new trial must nevertheless be had."

Lummus Industries, Inc. v. D.M. & E. Corp., 862 F.2d 267, 272 (Fed. Cir. 1988) (analyzing the position of a losing defendant in a patent infringement case who had appealed, charging that a jury instruction was erroneous, even though he had failed to object to the instruction at trial).

Since the plain error doctrine arises as a purely procedural matter and is not unique to patent law or to the administration of patent law cases, the Federal Circuit Court of Appeals does *not* create its own independent rules for application of the plain error rule in patent cases. Instead, the Federal Circuit follows the law of the regional Court of Appeals which has geographical jurisdiction over the respective trial court from which the appeal arises. *See, e.g., Lummus*, 862 F.2d at 270 (discussing Fourth Circuit cases which deal with the plain error doctrine, namely, *Havee v. Belk*, 775 F.2d 1209, 1220 (4th Cir. 1985) and *Klein v. Sears Roebuck & Co.*, 773 F.2d 1421, 1426 (4th Cir. 1985)). The Federal Circuit has a long established practice providing that, with respect to matters of a purely procedural nature, the Federal Circuit will follow the procedure of the regional Court of Appeals in which the trial court sits. *Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850, 855 (Fed. Cir. 1991). The Federal Circuit has done this as an accommodation to the trial courts, recognizing that they will be most familiar with the procedure of their regional appellate court.

There is no basis for Philips to argue that the Federal Circuit refuses to apply the plain error doctrine. Indeed,

the application of this doctrine was fully briefed and argued during the appeal below. At no point in time did anyone—either von Holdt or the appellate judges—ever dispute the recognition of that doctrine by that Court. The only issue, which Philips simply does not want to accept, is that the plain error doctrine fails to help Philips on the facts of this particular case.

CONCLUSION

The Federal Circuit Court of Appeals has an established history of applying the plain error rule as the rule is applied by the regional Courts of Appeals. There is no issue or dispute on this point for this Court to resolve.

Philips's sole basis for a new trial rests on a perceived inconsistency between one jury instruction and the trial court's pre-trial ruling on Philips's Motion for Partial Summary Judgment on damages. However, Philips's trial counsel made no attempt to enforce the pre-trial ruling at trial. Extensive evidence was presented at trial, without objection, which was not before the trial court at the time of the pre-trial ruling. Thereafter, the court instructed the jury to consider the evidence of record at the trial, again without objection by Philips's trial counsel, who jointly prepared and proposed all such instructions. That is not improper. Indeed, it would have been reversible error if von Holdt had been precluded from presenting such evidence or if the jury had not been instructed on such evidence. Thus, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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